

GTE Service Corp. shall not compete with Apollo CableVision, or any permitted successor or assignee, in the provision of Video Programming in Cerritos during the term of this tariff (including any extension thereof not in excess of seven (7) years beyond the initial term), provided, however, that GTE Service Corp. or any other GTE entity shall not be prevented by this provision from complying with any obligation imposed on GTE by the FCC, other regulatory bodies or the courts.

Without such an addition, the tariff will not properly inform the public of the qualifications and limitations which apply to GTE Service Corp.'s current use of Channels 40 through 78.^{20/}

^{20/} While Section 18.4(A)(4) refers, in part, to Apollo's right in this regard, Transmittal Nos.893 and 918 changed Section 18.4(A) and 18.4(B) from identifications of Apollo and GTE Service Corp. by name to "programmers" of Channels 1-39 and 40-78. To the extent Apollo's right relates directly to the future use of Channels 40-78, such information should also be disclosed in Section 18.4(B) of the tariff. The current wording of Section 18.4(A)(4) should be retained, since "bandwidth capacity . . . in excess of 275 MHz" -- to acquire the use of which Apollo is contractually entitled -- could also occur within current Channels 1-39 through the use of digital techniques.

B. GTE Service Corp.'s Non-Competition Agreement

As shown above, the parties' earlier contracts included a specific GTE Service Corp. agreement not to compete with Apollo's cable business in Cerritos. Accordingly, to assure that the tariff conforms to the parties' agreements, to advise the public of this limitation on the use of Channels 40-78, and to conform Section 18.4(B) of the tariff to Section 18.4(A), the Bureau should direct that the following be added to Section 18.4(B):

GTE Service Corp. shall not use Video Channel Service to compete with Apollo CableVision, or any permitted successor or assignee, in the provision of Video Programming in Cerritos during the term of this tariff (including any extremes thereof not in excess of over seven (7) years beyond the initial term). Provided, however, that GTE Service Corp. shall not be prevented by this provision from complying with any obligation imposed on the Telephone Company by the FCC, other regulatory bodies or the courts.

C. GTE Service Corp.'s Lack of Local Franchise Authority

A further addition to Section 18.4(B) is necessary in light of GTE's non-competition obligations. In its current form, the tariff may actually limit Apollo's permitted activities more than it does those of GTE Service Corp., for Section 18.4(A)(2) confines Apollo's operations in Cerritos to those authorized by the City of Cerritos' franchise, whereas Section 18.4(B) contains no such limitations on GTE Service Corp.

Accordingly, in order that the public be fully informed with respect to use of Channels 40-78, and that legal requirements applicable to that bandwidth be expressed in the tariff as they

are with respect to Channels 1-39, the following provision should also be added to Section 18.4(B):

GTE Service Corp. may only utilize Video Channel Service in compliance with the authority granted by the City of Cerritos to GTE Service Corp. to provide cable services.

CONCLUSION

In combination with Transmittal No. 873/893, Transmittal No. 874/909/918 is a plainly unlawful effort to abrogate earlier Commission-approved long-term contracts, and to alter material terms of the parties' agreements without any demonstration of "substantial cause" to do so. As presently structured, Transmittal No. 874/909/918 exceeds any Section 214 authority granted by the Commission, or presently requested by the carrier. Moreover, the rates here proposed for GTE Service Corp. are demonstrably deficient and discriminatory.

Rejection of Transmittal No. 874/909/918 is required. At a minimum, adjustment of the proposed rates to GTE Service Corp., a refund to Apollo, and appropriate qualifying wording must be added to the tariff.

Respectfully submitted,

APOLLO CABLEVISION, INC.

By: 

Edward P. Taptich
Anne M. Stamper
Gardner, Carton & Douglas
1301 K Street, N.W.
Suite 900-East
Washington, D.C. 20005

September 11, 1995

CERTIFICATE OF SERVICE

I, Alicia L. Allen, a secretary in the law firm of Gardner, Carton & Douglas, certify that I have this 11th day of September, 1995, caused a copy of the foregoing SUPPLEMENTAL OPPOSITION BY APOLLO CABLEVISION, INC. to be served on the following by first-class mail, postage prepaid:

Kathleen M.H. Wallman*
Chief, Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W., Room 500
Washington, D.C. 20554

John B. Richards, Esq.
Keller & Heckman
1001 G Street, N.W.
Suite 500-W
Washington, D.C. 20001

Geraldine Matise*
Acting Chief, Tariff Division
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W., Room 518
Washington, D.C. 20554

Daniel L. Brenner, Esq.
David L. Nicoll, Esq.
NCTA
1724 Massachusetts Ave., N.W.
Washington, D.C. 20036

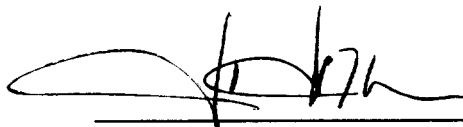
David Nall*
Common Carrier Bureau
Federal Communications Commission
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Washington, D.C. 20554

Alan Gardner, Esq.
Jeffrey Sinsheimer, Esq.
California Cable Television
Association
4341 Piedmont Avenue
Oakland, CA 94611

William Kennard*
Accounting & Audits Division
Federal Communications Commission
2000 L Street, N.W., Room 814
Washington, D.C. 20554

Randy R. Klaus
Senior Staff Member
MCI Telecommunications Corp.
1801 Pennsylvania Ave., N.W.
Washington, D.C. 20006

Gail L. Polivy, Esq.
GTE Service Corporation
1850 M Street, N.W.
Suite 1200
Washington, D.C. 20036



Alicia L. Allen

* Hand delivery.



ADMINISTRATIVE SERVICES

FEB 13 1995

COMMUNICATIONS

GTE Telephone Operations

Suite 102
13100 Alondra Boulevard
Cerritos, CA 90701
310 404-5800

February 9, 1995

Reply To

Ms. Michele D. Wastal
Public Information Coordinator
City of Cerritos
18125 Bloomfield Avenue
Cerritos, CA 90703

Dear Michele,

Attached is a check for the quarterly Center Screen franchise fees payable to the City of Cerritos. The quarter covers the period of October 1, 1994 to December 31, 1994. The franchise fees are based on 2 1/2% of gross receipts received from Center Screen customers.

Please call me at 310/404-5801 if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Don Bache", written over a horizontal line.

Donald J. Bache
General Manager-
Advanced Operations Testing

DJB:dvc
Attachment

cc: B. Moorman - Cerritos, CA (w/att.)

29504

SERVICE CORPORATION

SETTLEMENT STATEMENT

VOUCHER	DATE	INVOICE NUMBER	P.O. NUMBER	NET AMOUNT
SG1502XPAH0136	12/31/94	213.05/123194		213.0
FRANCHISE FEES				

ADMINISTRATIVE SERVICES

FEB 13 1995

COMMUNICATIONS

FOR ANY QUESTIONS, PLEASE CALL 915-944-6232

213.05

960002083



SERVICE CORPORATION
3701 SOUTH JOHNSON

STAMFORD, CT.
POST OFFICE BOX NUMBER 80257

SAN ANGELO, TEXAS 76902 0257

VENDOR NO.
29504
002083



SERVICE CORPORATION
STAMFORD, CT.
WORLD HEADQUARTERS
STAMFORD, CONNECTICUT

CHECK NO.
960002083
58-86/112

PAY EXACTLY *****213 DOLLARS AND 05 CENTS **

DATE 02/01/95 VOID AFTER 90 DAYS
*****213.05

TO THE
ORDER OF

CITY OF CERRITOS
BUS LICENSE DIV
PO BOX 3130
CERRITOS

CA

James [Signature]

960002083 10112003651 93543 18092



CITY OF CERRITOS

CIVIC CENTER • 18125 BLOOMFIELD AVENUE • P.O. BOX 3130
CERRITOS, CALIFORNIA 90703-3130 • FAX: (310) 865-7277
PHONE: (310) 860-0311 • (714) 523-3710

February 24, 1995

Mr. Don Bache
General Manager
Advanced Operations Testing
GTE Service Corporation
13100 Alondra Blvd., Suite 102
Cerritos, CA 90703

Dear Don:

The City has received the \$213.05 check for quarterly Center Screen franchise fees for the period of October 1, 1994 to December 31, 1994. Due to the legal and regulatory uncertainties surrounding GTE's provision of video programming, the City will not proceed with the franchising process for GTE at this time. We will hold this franchise payment, as we have the previous payment, until clearer direction is provided by the Federal Communications Commission and/or the courts.

Sincerely,

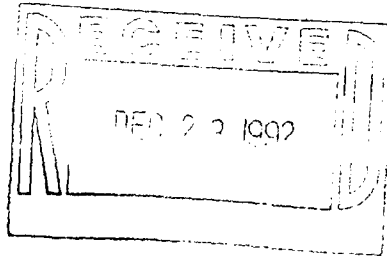
John H. Saunders
Director of Administrative Services

snl
cc Caroline de Llamas, City Clerk



INTRACOMPANY CORRESPONDENCE

GTE Telephone Operations



Reply To

HQW01N12
Irving, TX

To: B. M. Barbe - HQW01N21 - Irving, TX
R. A. Cecil - HQE04N58 - Irving, TX
T. M. Edwards - HQW03J68 - Irving, TX
C. R. Holliday - HQW02H61 - Irving, TX
B. Maring - HQW02J52 - Irving, TX
M. McDonough - HQE03H05 - Irving, TX

Subject: CERRITOS STEERING COMMITTEE MEETING

A Cerritos Steering Committee meeting was held at 8:00 a.m., December 3, 1992, in HQW01K21. A list of the attendees is attached. Topics discussed during the meeting included the following.

1. Remand and Bache Visit to FCC. Don Bache gave a brief update on his visit with the FCC on December 2, 1992. Representatives from Regulatory Affairs, Governmental Affairs, and Don met with the FCC to give them an update on the Cerritos project, to inform them of some of the very positive results from Cerritos, and to lobby on GTE's behalf for a positive final order on the remand. Don described the meetings with the FCC as very positive and encouraging. A final order related to the Cerritos remand is expected in the near future and the current opinion is that this order will be favorable to GTE.
2. Main Street (Test B-3). Paul Harrington's letter to the Steering Committee dated November 3, 1992 was discussed in detail. In this letter, Mr. Harrington requested that any excess contingency dollars in 1992 be transferred to Main Street because of excess costs that Main Street has incurred in Cerritos. After considerable discussion, it was agreed that \$300K of 1992 contingency dollars would be transferred to GTE Main Street. The Steering Committee also requested that Paul Harrington and Tom Grieb attend the next Cerritos

Steering Committee meeting and provide an update on Main Street in Cerritos. Mr. Harrington and Mr. Grieb should be prepared to discuss the following topics:

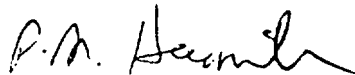
- Results being obtained from Main Street in Cerritos and what benefits Telops is receiving.
 - Action being taken by Main Street to increase the number of subscribers in Cerritos.
 - Steps that can possibly be taken by Main Street to reduce costs in Cerritos.
 - Plans for GTE Main Street in Cerritos beyond 1993 and particularly to the end of 1994.
3. GTE Imagitrek (Test B-6). Matt Dillion and Barry Hobbs made a presentation on a proposed enhancement to Test B-6 which will add inter-active advertising to this test. GTE Vantage requested \$755K in 1993 to fund these enhancements. The Steering Committee approved this funding with the following caveats:
- a. Barry Hobbs will attend the February, 1993 Steering Committee and provide a detailed time line for this test with quarterly milestones.
 - b. Funding for this test will be provided on a quarterly basis and no money will be paid to GTE Vantage until quarterly milestones are met.
 - c. Advanced Operations Testing will be responsible for verifying that all milestone dates are met and administering the transfer of funds to GTE Vantage.
 - d. During the February meeting, Barry Hobbs will advise the Steering Committee of the steps being taken by GTE Vantage to protect GTE's intellectual property rights and investments as a result of the Cerritos test.
- Money will be transferred from contingency funds to meet the funding requirements for this enhancement to Test B-6.
4. Transition of Cerritos to Business as usual. Paul Rettman gave a brief update on the effort to develop a plan to transition Cerritos to a business as usual mode by the end of 1993. The business goals for Cerritos have been

Messrs. Barbe, Cecil, Edwards, et. al.
December 18, 1992
Page 3

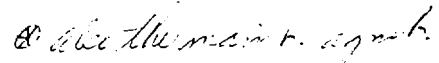
completed, an initial meeting was scheduled for the afternoon of December 10, 1992, to begin discussing the development of the plan. The current schedule is still to have the transition plan approved by February, 1993.

5. Coat Lease Agreement. Jim King advised the Steering Committee that the amendment to the capital lease agreement between GTE Service and GTE California has still not been signed. This amendment should have been signed several months ago and it appears that copies of the actual agreement have been lost in Irving. Jim King will provide Mike Hamilton with updated copies of the agreement. Bruce Barbe also agreed to follow-up with Dick Cecil on this matter.

The meeting adjourned at approximately 11:15 a.m. The next Cerritos Steering Committee meeting will be held on January 7, 1993, in HQW01K21, beginning at 1:00 P.M.



P. M. Hamilton
Manager-
Advanced Operation Testing



PMH:pjm

c: Distribution List

CERRITOS STEERING COMMITTEE

December 3, 1991

MEETING ATTENDEES

Don Bache (Advanced Operations Testing)
Mike Baker (for Blayne Maring)
Bruce Barbe (for Jim Nix)
Tom Edwards (Member)
Ron Garavalia (for Cliff Holliday)
Mike Hamilton (Advanced Operations Testing)
Jim King (Guest)
Paul Kuhar (Guest)
Dave Neisius (Guest)
Mike Porter (for Howard Mitchell)
Paul Rettman (for Dick Cecil)
Dick Weston (for Mike McDonough)

Posted: Fri Apr 15, 1988 11:35 AM EDT
From: D. SEIBEL
To: G.K. MOORE
CC: AOTEAM, L. CARTER
Subj: LEASE AGREEMENTS

Msg: DGII-2829-1668

CRAIG WECKESSER TOLD ME THAT IN THE DRAFT OF THE LEASE WE AGREED TO, YOU HAVE COME ACROSS A PROBLEM AS TO WHAT TO USE FOR A COST OF CAPITAL IN DETERMINING LEASE PAYMENTS.

I HAVE DISCUSSED THIS ISSUE WITH SEVERAL DEPARTMENTS WITHIN GTE SC AND WE BELIEVE THAT IN THE SPIRIT OF THE MEMORANDUM OF UNDERSTANDING SIGNED BETWEEN GTE SC AND GTC, GTE SC SHOULD MAKE GTC "WHOLE" AND THAT GTC SHOULD RECOVER COSTS FOR THE PROJECT BUT NOT A PROFIT.

FOR THESE REASONS, WE THINK A COST OF DEBT SHOULD BE USED BY GTC. WE HAVE BEEN INFORMED THAT THE CURRENT FIGURE IS APPROXIMATELY 8 1/2 %.

IT IS THEREFOR REQUESTED THAT THE LEASE AGREEMENT CONTAIN THE PROVISION OF A COST OF DEBT AT 8 1/2 %.

PLEASE LET ME KNOW GTC'S THOUGHTS ON THIS. I BELIEVE WITH THE 214 APPROVAL IN HAND, THE ABILITY TO GET THIS LEASE ARRANGEMENT APPROVED ASAP IS IMPORTANT.

ANKS.

DAVE SEIBEL

GTE 000000523

Financial Issues: ATL/BTL Segmentation of Costs

OBJECTIVE: Develop a case to justify the shift of costs incurred on the Cerritos project from BTL operations to ATL operations. Target audience will be the regulators (FCC, CPUC) and executive management.

BACKGROUND: The FCC provided a waiver to allow GTE to build and construct a coaxial/fiber network in the city of Cerritos, California so long as all of the costs incurred are recorded BTL. To-date, all costs have been recorded BTL.

IMPLICATIONS: The direct costs incurred on the project which do not utilize ATL resources are booked directly to the BTL operations with no impact on the ATL/BTL shift. The shareholder bears the burden of these costs.

The direct costs incurred as a result of the utilization of ATL resources have a financial impact to GTE in two respects: 1) there is no incremental cost to GTE as a whole but rather a shift in expenditures from the ATL operations to the BTL operations (assuming no additional resources are required to perform the work) and 2) accompanying this shift is a transfer of ATL indirect overhead costs associated with the use of ATL resources for BTL operations. Again, no incremental costs but rather a shift from ATL operations to BTL operations.

This shift transfers the burden of covering these expenditures from the rate making process to the shareholder. In a market place free of regulation, this would suggest that all risk and rewards associated with the Cerritos project will be born by the shareholder.

MEASUREMENTS:

As the project unfolds, many benefits will accrue due to the technological expertise which is gained as well as the definition and development of new products/services. As costs are defined relative to the measurement of success of the project, a business analysis of the impact of these costs incurred relative to the ATL/BTL split can be applied to justify the transfer back to the ATL operations.

APPLICATION:

One specific example of a business analysis relative to the ATL/BTL split is that of fibertone. Fibertone, by definition, is the delivery of narrowband telephony services, including dial tone, to the home. Given this definition, a case can be made to segment some, if not all, of the costs associated with this type of testing to the ATL operations.

Analysis of GTE Telephone Companies' Cerritos Tariff Rates
Federal Communications Commission, CC Docket No. 94-81
September 11, 1995

W. Page Montgomery
Montgomery Consulting

I. Introduction and summary

At the request of Apollo CableVision, Inc. (Apollo) we have reviewed the "Supplemental Direct Case of GTE" filed August 28, 1995 in CC Docket 94-81 to determine if GTE's claims regarding nondiscrimination in the rates for GTE Service Corp. (GTESC) in Transmittal number 909, compared to the rates already specified for Apollo, could be verified and were accurate. Our analysis required that we also review GTE's Transmittals 873 and 874 because GTE's claim of non-discrimination is associated with the cost support data for these transmittals.¹ Transmittal 873 established a lump sum charge to Apollo of \$4,042,702 for its use of 39 channels in the network over a period of 12 years. The charge excludes customer installation activity by GTE-California (GTECA) and power expenses which are reimbursed under separate rates. Transmittal 873 was suspended for one day and allowed to go into effect subject to an accounting order.²

GTE's Supplemental Direct Case claims that the original tariff rates were developed using its standard methods. GTE states that the rates "were derived in accordance with the standard pricing methodology" using the 11.25% rate of return.³ GTE also asserts that because the rates for Apollo and GTESC are the same, there is no discrimination. GTE states that pricing based upon the 11.25% return "would ensure that the total regulated costs (i.e., transferred regulated investment plus ongoing expenses) associated with the provision of the 39 channels would be fully recovered" from

¹ See GTOC Tariff FCC No. 1, Transmittal N. 873, Description and Justification, April 22, 1994.

² GTE Telephone Operating Companies, Order, DA 94-784, July 14, 1994, para. 50.

³ Supplemental Direct Case, p. 3. GTE also states that its administration charges are "annual general and administrative expense based upon GTE annual charge studies." Page 8.

GTESC.⁴ It claims the tariff charges are lawful because, "Charges associated with the tariffed (i.e., regulated) portion of the network are equal to the monthly payments that Apollo previously paid and would continue to be paying had it not exercised the prepayment option in 1992."⁵

The tariff charges for Apollo are not developed appropriately, either with respect to the specific cost characteristics identified by GTE or in comparison to other GTE ratemaking for video transport services. First, GTE included in Apollo's lump sum tariff rate certain "nonrecoverable" costs that apparently recover (a) plant costs that will not be depreciated by the end of the service period, and (b) costs that were not transferred to actual regulated costs. A customer of service under tariff, such as Apollo, would not bear such costs under standard ratemaking practices. Second, GTE used annual charge factors for administration and maintenance overheads that do not reflect GTECA's essentially-passive role with respect to channels operated by Apollo. Due to GTE's effort to structure the tariff lump charge to the amount that Apollo had previously paid under contract, Apollo, in its status as simply a customer for a GTECA tariffed service, is forced to bear inappropriate costs. That the rate for GTESC is ostensibly set on the same basis as the cost to Apollo does not cure the underlying discrimination in rates. GTESC, in fact, should bear part of the costs that were improperly allocated to Apollo by virtue of GTE's rate averaging.

Accordingly, in the calculations accompanying this analysis we determined that instead of \$81,764 — the charge to GTESC equivalent to Apollo's lump-sum payment under contract — Apollo's appropriate monthly charge based upon standard ratemaking practice should be \$57,571.74. Translating that amount into a lump-sum payment, Apollo is owed a refund by GTECA of \$1,196,151 exclusive of any accrued interest. The corresponding tariff rate for GTESC should be set at \$94,422 per month in order to ensure that GTECA's other regulated activities do not bear any of the "costs" that GTE

⁴ Id., pp. 6-7.

⁵ Supplemental Direct Case, pp. 9-10.

originally identified in the tariff filings.⁶

II. Economic analysis

As GTE states, its tariff rate for Apollo is set to recover the same fee from Apollo over the period covered by the tariff as Apollo had earlier prepaid under its contract with GTE. At the outset, it should be noted that it would be sheer coincidence if the payment Apollo made under a private contract for a non-regulated GTE service precisely matched a rate developed under FCC ratemaking principles. It is reasonable to infer that the rate development for Transmittal 873 was structured so as to produce a result that exactly matched Apollo's prior payment under its contract with GTE.

The fact that GTE used the same rate development process with respect to GTE Service Corp.⁷ does not actually address the nondiscrimination question, because the value of Apollo's lump sum payment under Transmittal 873 was structured so as to exactly equal the unamortized balance of Apollo's earlier prepayment (excluding the costs not associated with the tariffed service). For one thing, any equivalence in the charges for Apollo and GTECA is not proof of the absence of economic discrimination, because GTECA and GTESC do not have an arms-length economic relationship. Any mis-specification of the appropriate rates with respect to GTESC could be subsumed in other transfer payments among these affiliated companies.

In fact, the nature of Apollo's prepayment under the contract is economically distinguishable from the service GTECA provides under tariff. Apollo's prepayment

⁶ This monthly rate gives GTESC a pro rata credit for the excessive GTECA annual overhead costs associated with Transmittals 873 and 874. If, on the other hand, the Commission determines that the total charges to Apollo and GTESC should still recover the annual costs identified by GTECA, then GTESC should pay \$105,956 per month. See Worksheet 3 attached hereto.

⁷ The only difference in the initial, pre-tariff monthly prices for Apollo and GTESC is an adjustment to reflect other credits that were due Apollo at the commencement of the service, represented by the system price monthly payment difference of \$10,029. Transmittal 909, Attachment A.

occurred before the supposed abrogation of the contract. The prepayment amount reflected not only Apollo's share of the direct costs of its one-half interest in the actual cable facility, but also the economic value of its right under the contract to obtain the use of the other 39 channels. This option value was inherent in the terms of the supposedly abrogated contract.

It would not have been prudent for Apollo to agree to a bargain that lacked this option, because a cable system limited to 39 channels could be an economic dinosaur before the 12 year period expired. Neither Apollo nor any other cable programming distributor would have entered into a long term contract that would have confined it to marketing only 39 channels of programming service. This limited capacity would prevent a cable operator from marketing the dozens of new programming services that have become and are becoming available. In fact, when the initial lease contract between Apollo and GTECA was signed, the majority of cable TV subscribers in the United States already were served by larger capacity systems. According to the National Cable Television Association and Kagan Associates by 1993 40% of all cable subscribers already were served by systems with 54 or more channels, and only 5% of subscribers received less than 30 channels.⁸ The importance of increased channel capacity to the cable industry was confirmed by the Commission when it adopted "going forward" rate rules for cable operators that included economic incentives to expand channel capacity and add programming — an option that Apollo would forego if its contract was abrogated by GTE's tariff.⁹ The existence of a value for Apollo's rights under the contract is clear. If the contract is deemed to have been abrogated, the economic value of Apollo's option to obtain the additional 39 channels was reduced to zero.

Therefore, GTECA should have reflected the reduction in economic value previously

⁸ "Cable Television Developments," 1994 p. 10-A.

⁹ Implementation of Sections of the Cable Television Consumer Protection and Competition Act — Rate Regulation, MM Docket 92-266, Sixth Order on Reconsideration and Fifth Report and Order, 76 FR2d 859, 864, stating that the Commission's rules were intended "to provide sufficient incentives to operators to expand capacity and provide new services to consumers."

bargained for by Apollo when GTE tariffed the lump-sum charge for Apollo. This reduction in economic value would have been properly reflected in the tariff rate if GTE had adhered to standard ratemaking principles. GTE alleges that it adhered to such ratemaking principles, but it did not do so. As a result of its failure to file appropriate tariffs, GTE arbitrarily inflated the amount of any lump sum payment that Apollo would have incurred if the service was appropriately tariffed from the outset.¹⁰ The effect of the filed tariff is to create an unreasonable discrimination between Apollo and GTECA that is approximately equivalent to the value of Apollo's right to obtain access to the full system, as specified in the contract.

However, the Commission need not look behind the filed tariff so as to interpret the contract. Instead, the tariffed lump sum rate for Apollo should be reduced, consistent with standard ratemaking practice. Apollo should receive a refund from GTE of a portion of its tariff charge equal to the difference in the amount it would have paid if the service were tariffed from the outset. In order to protect GTECA's ratepayers from the effect of reversing this cross subsidy, GTECA should pay the difference to GTECA.

III. Ratemaking analysis

GTE's tariff support information can be used to approximate the added economic value to Apollo of its prepayment under the contract, with respect to its rights thereunder. The tariff charges for Apollo (the lump sum) and for GTECA were set so as to equal the remaining value of Apollo's contractual payment. In seeking to match the contractual and ratemaking values, GTECA utilized at least three inappropriate, and certainly non-standard, ratemaking calculations. These calculations all increase the annual tariff costs

¹⁰ GTECA's claim that the contract amount only reflected a pre-tax cost of money of 18.9% is not persuasive, and is contradicted by Apollo's ability to prepay the amount in full using funds obtained from another lender at a substantially lower interest rate. The market rate for the alternative funds reflected the Apollo lender's prospective income tax liability on the interest. Clearly, the component of the prepayment that GTECA characterizes as a pre-tax cost of money was above the market rate at which Apollo could obtain funds from other lending sources. Therefore, contrary to GTE's claim, the interest rate implied by the prepayment obligation under the contract reflected more than just the income tax consequences of GTECA's authorized rate of return.

shown on Exhibit B, page 1 of GTECA's supporting materials for the original Apollo and GTESC tariffs.

These ratemaking calculations have little, if any, relevance to Apollo's customer role under the Cerritos tariff. The economic characteristics of GTECA's tariffed service offering and Apollo's role as a customer of it are clear. GTECA provides primarily a basic transport service to Apollo with respect to the 39 channels. GTE noted in the original tariff transmittal that Apollo will serve as the primary interface for trouble reporting.¹¹ Thus, Apollo incurs all customer administration and marketing costs with respect to its 39 channels. GTECA is but a passive provider of the coax transport. Indeed, GTECA will incur no future marketing costs with respect to Apollo as a customer because Apollo has prepaid its share of transport costs, including an 18.9% annual additive. Therefore applying GTE charge factors for services that GTE markets to its retail service customers is inappropriate.

Likewise, any cable customer installation activities that GTE undertakes for Apollo are covered by separate charges; therefore applying GTE charge factors that are used to develop both recurring and non-recurring installation charges for other GTE services is inappropriate. Power expenses are subject to a separate charge; therefore, including standard GTE charge factors that incorporate power expenses would be incorrect.

Although we have not changed GTE's calculation of the annual return and income tax costs for the tariff service, a reduction in the return/tax component might well be justified. The lump-sum tariff payment from Apollo eliminates virtually all of GTECA's future risk, and ensures that all of the actual ratemaking costs of the service are fully recovered. Once the correct tariff rate for Apollo is established, GTECA and its ratepayers will bear no future risks vis-a-vis Apollo because Apollo will have reimbursed GTECA for all of its fixed and variable costs for the remainder of the service period, by virtue of its properly-calculated lump-sum tariff charge. Any remaining risk of the Cerritos project is solely borne by GTESC. If, for example, GTESC is unable to realize

¹¹ Transmittal 873, D&J, p. 5.